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MILITARY PAY

An Incentive to Stay

Colonel Wilbur C. Shirey

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Research Based Essay

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Colonel Wilbur C. Shirey

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Travel, a desire to serve, pride, esprit de corps, comradery, responsibility, challenge, and job security are all listed as valid reasons one stays in the military profession. Our profession is often described as a calling, not a job. Special nature and unusual obligations are terms often used in describing those aspects of the military service for which there is no comparison in the private sector. And while all of these attempts to define the intangibles of a military career are valid reasons which most of us would use in describing why we have chosen our life's work, a vital reason not yet mentioned is the one without which none of us would be here: the compensation we receive through our pay and allowance system.

In the last two years we have witnessed a dramatic turn-around in recruiting for the armed forces. In fact the Army is currently bogged down in the dilemma of managing recruiting success. It now appears that the end year strength of the Army will surpass the statutory limit by more than 10,000 members. While some of our success is due to the depressed economy, much of it is due to innovative recruiting strategies and a desire to be part of the monumental modernization effort currently underway.



However, despite the success we currently enjoy in recruiting, there is one critical segment of our collective membership strength that still leaves the force structure in numbers far too great. I refer to the career military force, those with more than 10 years service. Unfortunately, the career force composition is independent of the way in which the military member is recruited into the force for his or her first term so the argument that a draft would solve the problem does not apply. What is pertinent. what does apply, and what will improve the retention of the experienced force segment that inspires, trains, and leads our soldiers is a modification of the military pay system; hence, the subject of this paper. Unfortunately, many of those who leave are highlytrained critically-skilled technicians such as computer programmers, aviation repair specialists, air traffic controllers, and electronic technicians, all of whom have very marketable skills in the private sector. When one looks at the sophistication of the hundreds of new systems being introduced as part of our modernization effort, especially from a logistics standpoint, it is critically important that we address revising the military pay system with the sole purpose of improving career force retention.

be revised to provide a better incentive to retain skills which require intensive training and for which there is a great disparity in pay between the current military pay system and that provided by the civilian employer. I will discuss the aspects of the current military pay system that have contributed to our career force retention problem, the pros and cons of the alternatives I see available within the military pay system, and finally what actions I think must be taken to maximize the retention capability of our pay system.

To what extent is pay a factor in retention of mid-career people? Dr. Lawrence J. Korb in the January 1982 issue of Defense Magazine stated:

The reasons for this sharp decline (in career reenlistment rates) are not at all obscure — pay scales increasingly less competitive with the private sector. . . and a general deterioration in the living conditions for military personnel and their families.

The Rand Corporation found in a study conducted in 1977 that "military members base their decisions to reenlist on total compensation, both the visible and invisible components." While compensation is not the only reason for the decline in reenlistment, it contributes to a major extent.

From a historical standpoint, compensation was an integral part of the explicit assumptions underpinning the creation of the All-Volunteer Force (AVF).

The Gates Commission, charged with laying the foundation for the transition from the selective service to the AVF stated, "The viability of an all-volunteer force ultimately depends on the willingness of Congress, the President, the Department of Defense, and the services to maintain. . . competitive levels of military pay." 4

There appear to be four key reasons why the pay and allowances system has not remained competitive based on comparable age and education in the public sector. First, since the inception of the AVF on 1 July 1974, changes have been made in the method for calculating comparability increases for GS scale federal employees. While these changes were necessary to correct inequities in the Civil Service pay system, military pay levels were automatically depressed because the military pay system is linked to the GS system.

These events account for a 7 per cent decline in purchasing power for armed services personnel. 5

The second reason is that the President, in an effort to hold down inflation and reduce the size of the federal deficit in 1975, 1978, and 1979 imposed paycaps on raises for all government employees. These three political moves cost the military another 7.2 per cent in purchasing power.

The third factor was the President's move in 1976 and again in 1977 to reallocate portions of the military pay increase into the Basic Allowance for Quarters (BAQ). This resulted in a 25 per cent reduction in take-home pay for those living in government quarters compared to those receiving BAQ. 7

Finally, the unprecedented inflation rate that our nation has experienced during the years since the inception of the AVF compounds the effects of the actions mentioned above. This has resulted in further diminishing the military purchasing power in relation to the Consumer Price Index (CPI).

The other point that must be established is the significance of the retention problem. Career reenlistment rates dropped from 81 per cent in 1974 to 68 per cent in 1979. Because of the nature of the military personnel system, which only allows entry at the bottom of the hierarchy, these mid-career personnel are irreplaceable. The training and experience possessed by these individuals only comes with time. Because the military personnel system precludes entry except at the basic skill level, more than one soldier must be recruited for each trained worker who is not retained. Because of attrition through training washouts, disciplinary eliminations, promotion failures and other

reasons, for every one of the mid-career senior non-commissioned officers who stays past his or her third term, we need four fewer recruits to be trained to take their places.⁸

One other historical change is noteworthy. That is the dramatic shift away from the general military skills toward the technical specialists, as cited earlier, who constitue the bulk of those mid-career personnel who are attracted to jobs in the private sector. Military personnel trained in white-collar occupations now account for 46 per cent of the total military population compared to 28 per cent in 1945. Blue-collar enlisted workers now constitute 55 per cent of the military force, down significantly from 72 per cent in 1945. Finally, with the emphasis on technology, jobs requiring technical skills in the military are almost twice the percentage found in the rest of the economy. The significance of this skill level shift becomes apparent when one considers the wage differentials in the civilian sector. Table 1 portrays graphically the fact that in the private sector, professional and technical skills, excluding engineers and physicians, earn 59 per cent more than clerical workers. Engineering technicians and health technologists, both of which have high concentrations of military counterparts earn significantly more than their clerical counterparts.

TABLE 110

Index of Estimated Average Annual Wage or Salary Earnings of Full-Time Civilian Workers, by Occupational Category, 1978

Clerical category = 100

Occupational category	
All professional and technical	164
Professional and technical excluding engineers and physicians	159
Engineering technicians	143
Health technologists and technicians	s 127
Other	174
Clerical	100
Craft	147
Service (except private household)	88
Protective service	132

Table 2 which displays the regular military compensation (REC), basic pay, BAC, basic allowance for subsistence (BAS), and the tax advantage derived from the nontaxable status of the two allowances, arrayed by occupational category illustrates the most glaring deficiency in the military pay system which makes the greatest contribution to the inability of the military services to retain mid-career personnel. That deficiency is the near total absence of pay differentials based on occupational skills.

TABLE 2¹¹
Average Annual Regular Military Compensation of Enlisted Personnel, by Occupational Category, 1978

Occupational category	Regular militar compensation Index (clerical category = 100)
Technical	96
Electronic equipment repe	airmen 100
Communications and intell specialists	Ligence 94
Medical and dental specis	alists 94
Other technical and allie specialists	ed 97
Clerical	100
Craft	· 93
Electrical and mechanical repairmen	equipment 93
Other craftsmen	94
ther	89
General military skills, inc	cluding 88
Service and supply handlers	91

We continue to rely on the pay table which entitles everyone of the same rank who has served the same number of years to the same amount of basic pay whether the soldier is a computer operator, clerk, or electronic technician. Despite the fact that Tables 1 and 2 do not correlate directly, one can clearly see the disparity between the pay scales and the reason that we have retention problems is clear. We simply must move to provide pay differentials based on competitive wage scales. While it may be true that the value of all individuals to the total effort is equal, the fact remains that with the AVF, we entered the market place to compete with private industry for individual services. We did so without altering the most tangible aspect of comparison, our pay system. It was only in the 1981 pay raise of 14.2 per cent that we finally recognized a difference in the value of our military members and then it was by pay grade, not by skill criticality. We have yet to formally recognize the cause of losing our mid-term career people; the disparity between our pay scales. To be sure that the Department of Defense (DOD) does indeed recognize the differentials required to attract and retain different skill levels, one only needs to look at the earnings index for DOD Civilians (Table 3) to see the significant and consistent variance by occupational area.

TABLE 312

Index of Average Annual Wage or Salary Earnings of Full-Time Civilian Employees Aged 17-44 of the Department of Defense, by Occupational Category, 1978 Clerical category = 100

Occupational category	Earnings index
Technical	134
Electronic equipment repairmen	162
Other	118
Clerical	100
Craft	152
Electrical and mechanical equipment repairmen	t 153
Other craftsmen	151
Other	117
General military skills, including ground combat	104
Service and supply handlers	120

A cursory glance at training time required to acquire an entry-level skill proficiency indicates a wide variation between the training time required for a soldier who aspires to become a light weapons infantryman and one who is awarded the computer operator or tank turret repairman specialty. One's worth in the private sector is normally closely

proportional to the length of time invested in training. Although the soldier is paid during the time he is trained and he invests none of his own money in his training, it seems to follow logically that the longer he trains, the more valuable his skill and therefore contribution to the organization. There is an argument that the military has an inherent responsibility for returning to society a better educated, higher-skilled person than the recruit which entered the service. If that argument is accepted, the military services certainly meet that mission well. That goal, however, contributes directly to the retention problem. We somehow accept that once we train a soldier in a marketable skill and he returns to civilian status, we have met our responsibility. It is the shortsightedness of such a philosophical approach that has plaqued the services since the inception of the AVF. While the retention problem at the present appears to be improving. I submit that it is only an aberration of the trend that has been established, an aberration caused by the high unemployment rate. We simply cannot overlook the fact that the only way we develop career personnel is through retaining basic entry soldiers.

Without belaboring the point, there is one more point that must be made concerning our system. In almost any pay system, longevity is an important factor. Job tenure is the basis for automatic increases almost without exception in competing pay systems. However, in the military, it is the most critical pay variable, and since there is no pay differentiation based on skill classification at the basic entry level, the craftsman, because of the difference in grade structure. is paid less than the clerical worker during his first enlistment. When he attains age 45 and presumably the highest enlisted grades in the Army, he is still, relative to his clerical counterparts, paid considerably less, again because the force structure does not allow a comparable grade authorization. Not only is this concept true for the military craftsman, but more importantly, it is true of the military technician. Again, this example is used to point out that, while we acknowledge that we are competing with the civilian market to acquire and retain an AVF. we have maintained an outdated pay system that treats senior seasoned workers and supervisors as if there were practically no differences in the value of their services.

By ignoring the difference in value of services or training investment, our pay system provides little help to the personnel procurer and personnel manager. I believe

the pay system should be flexible and operate as an adjunct, indeed a disciplinary tool, for the personnel procurement policy maker and as a powerful aid to the personnel manager in maintaining sufficient quantities of soldiers in the right rank and in the proper occupational skills. The magnitude of the problem is that 68 per cent of the skills in all the services are currently over or under-manned. 13 Instead we have applied the automatic pay raise comparability mechanism equally . to all pay grades in all occupations and in all services. In effect, not only do we overlook the difference in value of services in the basic military pay tables. but also, in the distribution of pay raises, we have accepted a totally inflexible system that not only ignores the difference in the value of services but also abandons the manning conditions and manpower requirements of the armed forces. This annual mechanism which could be an invaluable asset to the personnel manager in enticing people from a positive motivation to move into shortage specialties, instead leaves the manager begging soldiers to reclassify from overage skills to shortage skills or forces the manager to encourage reclassification based on negative motivation. e.g., slower promotions in overage skills or disallowing reenlistments in overage skills. We seem to take some sadistic delight in forcing our people, against their

will, to do jobs that must be done when it would be so simple to pull them into the same job through a flexible annual significant change in allocation of the pay raise.

I have tried to point out the key problems with and the failures of the current military pay system and why it contributes to the lack of retention of our mid-career force. The worst feature of our system is that we fail to recognize the value of occupational qualifications. In so doing, military pay becomes very attractive to the personnel who are skilled in areas for which there is little demand in the private sector. Conversely, for those whose skills are recognized as valuable in the private sector and whose military training is generally more extensive, our pay system does not provide the proper incentive to stay.

In relating the military pay system to military manpower shortages, the President's Commission on Military Compensation suggested that "the use of a single payline for all types of manpower can be efficient only if it is so low that it attracts and retains the correct number and quality of personnel in occupations that are easiest to fill." The remaining occupations would have to be filled by some kind of add-on to the single pay line. The Commission calls these add-ons "pay differentials"

which constitutes an umbrella applied to all current special and incentive pays including seapay and aviation career incentive pay. Reenlistment and enlistment bonuses also fall into the differential pay category. 15 The reader should note that only the enlistment and reenlistment bonuses are aimed at correcting manpower shortages. The other differentials are awarded based on hazardous occupation or the location or type of duty the soldier is performing. In most cases these special and incentive pays are fixed by law and erode in value over time. Those fixed by law are extremely difficult to change and therefore are of little value to the personnel manager in maintaining the proper manpower balance. While they do acknowledge a special risk or geographic separation, they still fail to recognize the vital differences in the value of occupational qualifications. Where the service controls the dollar amounts and can adjust them quickly, the personnel manager has a very efficient tool to counteract anticipated or actual shortages. Unfortunately, the service discretionary pays are limited to the enlistment and reenlistment bonuses. Currently, the enlistment bonuses vary up to \$5000, and the reenlistment bonuses. depending on rank and service of the soldier reenlisting. can be as great as \$16,000. Considering the present

value of money, these seem considerable and have indeed provided a strong influence over the last two years in improving retention rates of the mid-career military members. The reenlistment bonuses are very efficient as a management tool and are revised on a monthly basis based on changes in the manpower requirements over the previous month.

Trying to determine how large these discretionary bonuses should be is a difficult task. One Bureau of Labor Statistics study conducted on data collected from a sample of civilian entry-level jobs corresponding to enlisted jobs showed that the salary variation was 32 per cent. For entry level jobs corresponding to officer jobs there was a 21 per cent variation. 16 We must be cautious about giving the appearance of throwing money at the problem. A recommendation by the President's Military Manpower Task Force currently under consideration "suggests giving the President new authority to shift up to one-quarter of the total military pay raise amount each year into new or existing bonus or incentive payprograms." On the basis of a planned 8 per cent pay raise, the services would obtain additional discretionary pay authority of about \$500 million. That seems excessive when the services currently plan to increase overall bonus payments in FY '83 by \$139 million. 18 To further complicate this issue, based on the current improved retention rates for career personnel, (e.g., the Navy retention rates for petty officers has increased from 28 per cent last year to 51 per cent this year) the Congress is going to be reluctant to approve such a measure when we are in the middle of success. As I stated earlier, I believe that the primary cause of this success is the current economic depression of this country and that this aberration will quickly disappear when the economy improves. To determine what these discretionary pay amounts should be, one must look beyond prevailing private sector wage rates and include unemployment, qualitative and quantitative military requirements, the conditions of service, and other pay and nonpay characteristics of military service. However, if discretionary pay is part of the solution, and I believe it is, then we must identify who our competition is in the skills which we are unable to retain and index the discretionary pay to the proper wage index. It is conceivable that there would be more than one wage index used for different skills. In fact, it is difficult to imagine a wage scale index that would apply equally to the language skill, medical, maintenance, and air traffic controller technicians. The key, however, is to tie the discretionary wage paid to the wage scale of our competition, whatever that is.

While the use of bonuses is clearly a step in the right direction in rewarding hard-to-retain skills, there is by no means a consensus, especially in the military community, that bonuses should be the only mechanism. The basic objection by the military to any change is that military members are soldiers, sailors and airmen first and specialists second. Any discrimination based on skill could destroy the cohesiveness, esprit, and teamwork required in a military organization. The professional unity which has been enhanced in the past by the RMC pay tables is undermined by the bonus payment which accentuates occupational distinctions. On the other hand, our consciences are salved by the fact that the bonus is only paid at reenlistment time and therefore a one-time recognition of skill value. This payment is made outside the regular RMC system and therefore is not seen as recognition of a more valuable contribution to the accomplishment of the mission, but a reward for reenlistment in a shortage specialty. That, somehow, is acceptable.

When we want to give our people a pay raise,
we encourage them to become better qualified for
promotion. Likewise, the service member perceives his
only access to a significant pay raise is through
promotion. The reason for this is that rank and pay
grade are one and the same. There is a one-to-one relation

between the two. This concept includes an implicit assumption that after an enlisted person has served in a given rank for a given period of time, he has acquired a particular set of qualifications and therefore is worthy of a higher title and greater compensation. In addition, we have designed our personnel promotion system so that every recruit has an upward mobility access to the highest enlisted grades. Indeed, if, after a certain length of time. our soldier has not been promoted to the next higher grade, he must get out of the military service. He not only has access to the highest enlisted grades, he must attain them or leave the service. This is simply another aspect of our system which focuses on people rather than jobs. With this horizontal equality, there is neither distinction nor reward based on occupational differences. All people of the same rank are the same grade and therefore receive the same pay. Furthermore, everyone has parallel pay opportunities. Civil service classifications, on the other hand, are made on the responsibilities and characteristics of a position. The qualities of the person who fills the job has no bearing on the position classification. I make this point to contrast the significance of our focus on people rather than on

position uniqueness and responsibility. Few of us would argue that the Company First Sergeant has the toughest job in the Army for his pay grade. Yet the only distinction made for him is a change in his title. I believe that it is time that the military services begin to make job distinctions an integral part of the military pay system to solve such problems as the shortage of willing Company First Sergeants.

Another example of the focus on people comes with a review of the distribution of our senior enlisted pay grades. When the E-8 and E-9 pay grades were introduced in 1959, we had an opportunity to focus on occupational differences by distributing more of those grades to the specialties requiring more advanced skills. We could have used that opportunity to allign senior pay grades with the skills in the private sector with which we were competing. However, that opporunity was lost and as shown by Table 4, technical and craft skills still are lagging behind the grade distribution for clerical skills. My point is that if the institution demanded that rank and pay grade remain tied, the distribution of the grades could have reduced the competitive edge of the private sector. It clearly does not.

TABLE 4¹⁹

Distribution of Enlisted Personnel in Pay Grades E-8 and E-9, by Occupational Category, 1978

Percent

	Pay grade	
Occupational category	E- 8	E- 9
echnical	28	27
Electronics equipment repairmen	12	13
Communications and intelligence specialists	9	8
Medical and dental specialists	s 4	3
Other technical and allied specialists	3	3
Clerical	26	3 6
Administrative specialists and clerks	26	36
Craft	22	22
Electrical and mechanical repairmen	18	18
Other craftsmen	4	4
ther	23	15
General military specialists, including combat	16	10
Service and supply handlers	7	5

If we are going to show that we intend to compete to retain skills, I believe that whatever we

do must be accomplished within our regular military compensation system. There is a hint that the President's Commission in 1978 was ready to recognize a difference in skill value. They suggest that the Secretary of Defense propose a pay raise split within the cash elements of RMC by pay grade, occupation, service, or by other appropriate class based on relative manning posture. They added that such a change should be reserved for correcting persistent rather than shortterm problems. 20 I have tried to show that there is a need for pay discrimination based on skill differences. This change should provide a long-term recognition of the value of one's skill. It should operate within the RMC system and not as an ad hoc add-on as represented by the enlistment and reenlistment bonuses. The perfect solution is to delink rank and pay grade as suggested by Binkin and Kyriakopolous. 21

This change could be made easily within our existing system. No change would be required for the promotion system. Once the proper wage index is adopted, the desired increase in wage scale by specialty would be determined. The increase then would be applied to Tables of Organization and Equipment/Allowance by changing the authorized pay grade for each line entry on the authorization document. Then when a

soldier is slotted against the authorizing line. he would be paid the appropriate pay grade. Such a change would allow for rank attainment to continue based on tenure in each service. Grade ratings would depend on job classification, personal qualifications and performance. Mean pay grades for any given rank would be allowed to vary up or down based on the training required, wage scale for competing private sector skills, or some other basis that may become more important in the future. Some specialties would not have the senior pay grades. I would expect that the technical and shortage skills would have a higher proportion of E-8 and E-9 pay grades. In specialties where the top grade was E-7, for example, the system would encourage those who wish to advance to retrain into a shortage specialty for further pay grade advancement.

Such a system would be much easier to discipline. The individuals would ensure they got the necessary training and experience to qualify for the next higher pay grade. Such a system would provide the motivation that is currently lacking. Despite the personnel manager's best efforts under the current system, there are always some percentage of enlisted soldiers working outside their specialty. They have no incentive to return to their specialty because promotion currently brings

increased pay rather than required training, experience and performance bringing that pay. The higher number of top grades in a skill would encourage longer careers and therefore fewer recruits to be procured and trained. This would free the training base to invest its resources on training recruits for combat arms where limited numbers of senior grades would encourage retraining into other skills and ensure the youth and vigor required of the combat arms.

In summary, the military pay system, especially with its direct link to the promotion system, contains inefficiencies and dysfunctions that have contributed to the retention problems the services have experienced with mid-career personnel. Except in the area ... bonuses for enlistment and reenlistment. The mill tary pay system is an ineffective tool for the personnel manager. Certainly in the long term, the pay system is inefficient and ineffective as an incentive to satisfy manpower requirements. The solution, I believe, is a combination of bonuses, the short-term management tool, for combat arms skills and the revised RMC system of separating rank and grade for the long-term management of technical and shortage skills. This combination provides the flexibility, discipline and dynamics required to man the military services from a positive "pull" incentive rather than a negative "push" principle.

ENDNOTES

Larry Carney, "Early-Outs Weighed to Cut Officer Rolls," <u>Army Times</u> (Washington), April 5, 1982, p. 1.

²Lawrence J. Korb, "Making the Volunteer Force Work," <u>Defense</u> 82 (Arlington, Va.), January 1982, p. 7.

Ju.S., President's Commission on Military Compensation, Report of the President's Commission on Military Compensation April 1978, (Washington: Government Printing Office, 1978), p. 104.

Melvin R. Laird, <u>People Not Hardware The Highest Defense Priority</u> (Washington: American Enterprise Institute, 1980), p. 1.

⁵Ibid., p. 12.

6_{Ibid}.

7_{Ibid}.

⁸Ibid., p. 5.

Martin Binkin and Irene Kyriakopoulos, <u>Paying</u> the <u>Modern Military</u> (Washington: The Brookings Institution, 1981), p. 6.

¹⁰Ibid., p. 25.

11 Ibid., p. 27.

¹²Ibid., p. 31.

13Tom Philpott, "Shifting Raises to Bonuses Urged," Army Times (Washington), March 15, 1982, p. 35.

14U.S., President's Commission on Military Compensation, op. cit., p. 124.

¹⁵Ibid., p. 128

16_{Ibid., p. 124.}

17_{Philpott, op. cit., p. 1.}

18Ibid.

19 Binkin and Kyriakopoulos, op. cit., p. 55.

20U.S., President's Commission on Military Compensation, op. cit., p. 127.

²¹Binkin and Kyriakopoulos, op. cit., p. 56.

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